

TRANSCRIPT NORDAX CONFERENCE CALL INTERIM REPORT JAN-SEP 2015
October 22, 9.00am CET

PRESENTER:

Ladies and gentlemen, welcome to Nordax interim report, January-September 2015. Today I'm pleased to present CEO Morten Falch, CFO Camilla Wirth, vCEO and COO Jacob Lundblad. For the first part of this call all participants will be in a listen only mode and afterwards there will be a question and answer session. Just to remind you, this call is being recorded. Speakers, please begin.

MORTEN:

Hi, this is Morten, many thanks for that introduction and good morning everyone and welcome to our third quarter report.

I'm pleased to tell you that we have great momentum in our business now and we are very pleased with the development in Q3. Today I will be supported by Camilla and we will start the presentation with some of the highlights from Q3, then we will give you a short recap on Nordax business model, and then Camilla will elaborate on the performance numbers.

So if you turn to page one, you can see that we have had a record quarter in terms of new lending. We reached more than one billion and the momentum, particularly towards the end of the quarter. In September lending was record-high at 448 million. And that's really good numbers. This makes me, of course, very confident about the rest of the year.

I also believe, when you look at the new lending numbers, that it is important to notice that the credit quality and the net interest margin are very strong on this vintage. The drivers of this increasing new lending are more marketing initiatives and activities in all countries. And we can also see that demand for our large loans is very strong.

If we look at the segments then, lending in Sweden reached 305 million, and gained real traction in September, when new lending landed on 146 million, which is almost half of the entire quarter. And this is a momentum we carry with us now.

Norway had another great quarter, with new lending of 449 million, and again, September stood out with 191 million in new lending.

Finland generated 189 million, and Germany generated 114 million in Q3. And it's good to see that Germany is really starting to contribute to the lending now.

So if you turn the page again, you can see that this new lending also drives strong portfolio growth. When we measure this in constant currency, the annualized growth rate in Q3 was 15%. And so far, this year, the growth rate is 8.2%, measured in constant currencies.

There have been some discussions about Sweden and when you look at the momentum we have in Sweden in September, the new lending actually led to an annualized growth rate level of 17%. That is just for September, but it says something about the momentum.

I think it is worthwhile to stress that the growth comes with great credit quality and with a strong net interest margin.

If you turn the page again you can see that we have good profitability development, and the adjusted return on tangible equity was 24% in the quarter. Operating profit landed on 103 million when adjusted. And for the first three quarters, adjusted operating profit was 283 million. That is an 11.9% increase from last year. When it comes to the numbers Camilla will elaborate more on this shortly, but again it's good to review what kind of business model we have that is generating these numbers.

So if you turn the page again, we have a picture here that illustrates that. The first part is really about what we do, and what Nordax is all about, and our business is really about providing large consumer loans and deposits to the public. And our lending is responsible, and we focus on financially stable customers.

Secondly about *how* we operate, we run the business from a central platform, and we serve all five markets from one office in Stockholm, and this provides economies of scale and cost advantages. It also gives advantages to how we manage the business from a governance and regulatory perspective and also on how we drive strategic initiatives. We have a data-driven approach to what we do, and in particular underwriting and marketing. And this facilitates low credit losses and it also enables lending volumes to have very low marketing costs. We offer unsecured consumer loans in four markets, as many of you know, then we have 20 lending channels, and the largest and most important lending channel is proprietary such as direct mail and unaddressed direct mail and of course lending to the existing book. And as oppose to some other consumer banks we are *not* dependent on brokers.

If you look at the funding side, it is diversified, and besides the use of warehouse funding, we fund our lending and balance it by bank plans and asset backed securities. We have senior unsecured bonds, we have saving products, and those we offer in Sweden, Norway and Finland, and they're all of course under the deposit guarantee scheme.

The next page is about why costumers choose Nordax. We approve fewer customers than many others do, but those we approve, we grant larger loans than many others. And by this, we can often satisfy the costumers complete need and requirement, and not just partly. And since we have flexible payback time, which is up to 15 years, it means that the monthly payment lands on an affordable level. So if we look at Sweden for instance, the typical loan is around 140 000 in size, and with a nine year payback period. That triggers a monthly payment requirement of 2 300, and that is an affordable level for our customers. And looking at the product the customers can pay back the loan any time if they want. They can pay it back partly or in full, and of course, without any extra cost.

So that's was the highlights of the numbers, a little bit about the business model, and also why our customers chooses us. Camilla will now elaborate a little bit more on the details of our financial performance for the quarter and for the year.

CAMILLA:

Thank you Morten. So let's turn to page 6. Here you see the income generation that we have been able to deliver. The one contribution that really sticks out this quarter is a strong delivery in our top line. The growing portfolio has generated 12.8% increase in total operating income in the last 12

months compared to the full year 2014. The NIM continues to improve, as you can see in the picture, and was above 9% in the quarter. In total the NIM has actually increased 70 basis points since year-end. The contribution from the different countries is similar but Norway is generally generating a little bit more than the other markets.

So let's turn to page 7, where you see the development of our portfolio. The quarter delivered superbly in terms of new lending. We saw the highest level ever. It was close to 1.1 billion. All markets improved in terms of volume compared to Q2. The new volumes contributed to the continued growth of the loan portfolio, and it has increased by 5.6% since the year-end despite the headwind from FX. Growth cleared from FX was 8.2%.

Moving on to page 8 where we see our operating profit. The development of the operating profit mirrors the profit of the development in the portfolio growth and in the NIM. Adjusted operating profit in terms of 12 months rolling, has increased 12% year-to-date compared to full year performance in 2014. The operating profit 2014 was 358 million Swedish crowns, last 12 months, as of Q3, sums to 388 million Swedish crowns.

Let's move to page 9, and the cost to income ratio. We have added resources in absolute terms to accommodate our growing business and to invest in the business development and infrastructure. But the centralized platform that we have continues to deliver efficiency gains, as you can see here. The adjusted cost to income ratio has improved by 40 basis points from 29.4% down to 29% in the period.

Let's move on to the next page, page 10, and the credit risk development. Cost of risk has developed within the expected range for Q3. The higher level that you see in Q3 compared to Q2 is not a trend. It's a shift, and a normal variation.

Page 11 shows the status of our balance sheet and our capital. The capital ratio is improving, with deliverance of the operating profit, and in this quarter the countercyclical buffer was introduced. If you look at the balance sheet in specific, you can see that it has the same proportions as in previous periods and that we stick to our diversified funding strategy, which includes, as Morten also highlighted, asset backed securities, warehouses, bonds and deposits in three different currencies.

So let's have a look at page 12 on our segments and our different markets. The highlight on the different market is that the new lending really took force in Sweden and Norway is continuing on the same path as previously, and the risk performance is stable despite challenges in the macroeconomic environment in Norway. Finland continues to deliver steady, and is the segment where we see the highest net margin. Germany is also growing steadily and from a modest level. But it's also important to notice that we continue to develop the business model and the cost of risk has not seen recoveries to the full extent yet so we have a very conservative provisioning there. I think that's it Morten, back to you.

MORTEN:

Thank you Camilla. I think these are really great numbers, I'm really proud of it. We have great momentum. Turn the page to the next slide and you can see the Nordax story so far, which I think the graphs shows so elegantly.

So if you start with the graph on the left-hand side. The graph really shows the great momentum we've had through the years, and which we continue to have, to grow our lending portfolio. And by growing the lending portfolio, we grow the interest net margin.

On the second graph, you can see the stable credit losses over time, and that is really supported by our strong, prime quality customer base.

In the third graph, as Camilla mentioned, we look at the evidence of economy as a scale, and how cost improves over time.

And when you look at the last graph, then you can see how these four elements, that is growth in the portfolio, the net interest margin, the stable credit losses, and the improvement in the cost-income ratio, have transposed into strong operating profit growth.

I think we have a really good story behind us, and I'm even more confident now about the future, especially consider the strong growth we had in new lending in Q3.

Talking about Q3 and the future, if you turn to the next page this is really about what is coming next here. And as we've said many times now, we have great momentum, and when you look at Q4 and going forward, it will be more of the same and that is because we have great business model. We do provide customers with products they find valuable, and that is something that we're going to continue with. So we will continue sound lending growth, where we will continue to provide customers with high utility loans and saving products which satisfy their requirement and needs. We will also strive to make life easier for customers to interact with us. We will of course continue our responsible lending, because if the customer has a problem, we have a problem too. We will remain conservative regarding on who we offer loans. But we will seek to satisfy the customers' entire needs.

And finally, we're going to work to retain a diversified funding base, to avoid becoming too dependent on any single one of them. So I think what you can expect in the future is much what you have seen in the past, and I think that sums up our presentation for the Q3 report, so thank you for your attention and I think we're ready for questions.

PRESENTER:

Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad, and you will enter a queue. After you are announced, please ask a question, and our first question comes from the line of Peter Kessiakoff from Carnegie, please go ahead, your line is open.

PETER:

Yes, hi, Peter here. I have a couple of questions, first of all, regarding new sales, have you, and given the high pace, the record sales that you had in September, have you done any changes on your front book rates, or any more changes compared to the ones that you mentioned before, in order to have such a high sales and perhaps, could you comment on how the competitive environment in Sweden looks, given that it has been quite tough in the past?

MORTEN:

Yes, hi Peter, first of all when it comes to margins, interest rates, if that's what you're asking about, now, I think the growth in Sweden is more about initiatives and activities we do, and what we have done is that we picked up the direct mail campaigns, so we're doing more of that than before, and we can see that by the still high marketing efficiency. So it's nothing about margins itself. When you look at the margins in Sweden, it's stable. It's really in Norway, Finland and Germany where we increase the net margins, not in Sweden. So it's pretty stable. When it comes to competition it's always strong competition, but I think this is a supply-demand game and when we do more supply there is more demand out there as well, so new sales is something that we drive ourselves. Competition, again, is always pretty high, but we have found our niche. When we excel is really when we start focusing more and more on large loans, and I think that is where we corner the market. We do have longer experience than many others in terms of underwriting, and that's where we succeed.

PETER:

Okay, and just an additional question on the competitive environment, in Finland you had new lending volumes that were unchanged year-on-year, could you perhaps give a comment on that?

MORTEN:

Yes, what we see in Finland, we are looking more at the direct mail response modeling and we're going to give that more focus and efforts as well. As you can see in Sweden when we started focusing and give things effort, it works. So I think Finland is a good market, we have higher margins there than in the other markets and we will focus on that going forward as well.

PETER:

Okay, then just a question on Germany. You write that you're seeing positive signs on recoveries, and if looking at news sales it's, of course, from very low levels, it was up 73% in local currencies year-on-year. Could you just give a comment on how close we are to a potential inflection point in Germany and what further signs we need to see in order to feel comfortable in increasing your lending there at a bigger pace than you have in the past.

MORTEN:

I'm very pleased about the development in Germany and it gives me more and more confidence about the future of that business. When you look at the sales numbers, yes, it's increasing all the time, and I think also as you've seen in the other countries, lending volume increases with actually a higher net interest margin. That's a very good combination. Also our marketing cost is going down in relative terms, which I'm also very pleased about. When it comes to the credit losses, yes, we have seen the first flow of recoveries, which is very encouraging. Still that, it's still very early, we only have some 100 customers in Germany which means that it takes some time to get attention from the collection agencies, but we have started getting the first flow, which is very encouraging, but we still account for credit losses Germany in a very conservative way. So Germany is certainly going from clearance to clearance, and it's really encouraging what we see there. And I think we are definitely on the right path and I'm more confident than before.

PETER:

And just a follow-up on that you mention that you just recently seen some cases being cleared on the right of side how, I mean, you said you have a few hundred bad loans there, how long do we need to wait until you think you've got enough clarity on these to proceed further.

MORTEN:

Well, I think, what we have seen, we don't have a several hundreds, we have a little bit more than a 100 actually] in Germany, so it's very small numbers, and when you deal with statistics and understanding that you want to see patterns, and then you need more than one observation. What we have in Germany so far is cash flow from these customers, which is very encouraging. We need to monitor this carefully, but its encouraging signs that we see. In terms of when we have the equation solved, from that perspective, it will still be an evolution, Peter, it's not like we're going to suddenly triple the sales. I would never do that. It will be a gradual increase in efforts and focus on this market.

PETER:

Okay, just one last question, on loan losses. We're up in all regions, could you give any comment on if you've seen any particular trends, and I guess Norway is hot topic, if you could just comment on that.

MORTEN:

Yeah, Norway is hot topic, but when we look at the trends in our portfolio, it's actually no trend at all. When you look at the credit losses, it is a normal level that we see. It's deviating towards the high end, but still, it is very normal, and it's in all four countries, or all three countries, really. So it's no change.

I think when it comes to the macro in Norway our customers are very stable. They are 48 years in average, they both were hired 10 or 15 years ago and in Norway 90% own their own house. And these people do not necessarily get unemployed, they may lose their overtime or something like that, but they live a stable life. We do not see any trends whatsoever that is deviating in any way, in Norway, so we're pretty comfortable, but we follow the news, we monitor it carefully, we debate this with our partners in Norway, and even those we work with in Norway in terms of credit bureaus and the collection agencies. They don't see any trends either. But we're alert, but again, we do not expect big shifts because of the macro changes and yeah, look at the unemployment in Norway, it grows from very low level.

PETER:

Okay, thank you.

MORTEN:

Thank you Peter.

PRESENTER:

And our next comes from the line of Martin Johansson from Nordea, please go ahead Sir.

MARTIN:

Yes, hi, can I just follow up on a question regarding Germany? So in regards to the net interest margin, we saw big improvement in Germany, what sort of level do you think is achievable in this region?

MORTEN:

Our ambition is to get to where we are in the other Nordax countries, but I think in the last quarter we're pretty close actually, we are on the same level. So typically in Germany today, we're about 11% on the APR, and the good thing with Germany is of course that the funding cost will be a little bit lower than in the other countries just because it's a euro market, which is a little bit easier to fund.

MARTIN:

Okay.

MORTEN:

But we thought of, on a home turf, in terms of the net interest margin now.

CAMILLA:

And of course, we are taking in what the market is accepting also, so we need to go slow in building the net margin, of course, but if it's there we want to have it.

MORTEN:

Yeah. That is we do all the time. But I think we're on a happy place now.

MARTIN:

Okay. Thanks.

MORTEN:

Thank you.

PRESENTER:

And now our next question comes from the line of Robin Rane from Pareto securities, please go ahead, your line is open.

ROBIN:

Hi, this is Robin from Pareto Securities, thank you, thank you for your presentation. I got two questions. Following up on lending margin you comment in the report that reduced funding costs, as I understand it, partly during Q3 will be transferred to costumers during Q4. How will that affect the net interest margin during Q4? And second question, do you want to comment on any further plans on introducing new products to the costumers, such as credit cards and so on? Thank you.

CAMILLA:

Okay, I will start with the first question. That is right that we have forward the decrease that we have in the funding cost to some extent to our customers. We want to have a balance there between the customers and us and we are pretty happy with the net margin we have. So what we will see is maybe a slight decrease in net margin, but then again we are selling at a higher level in the front book, which will actually lift off the margins, so that nets up to a stable margin for us. And do you want to continue on ...

MORTEN:

Yeah, the second question, was that product development or new products?

ROBIN:

Yes, exactly, yeah.

MORTEN:

Yeah. We have nothing in plan as such, but we are looking on how we can satisfy our customer needs better. And that is something that we will work on the first half of the year, but it's not like we have any plans of introducing credit cards, anything like that.

ROBIN:

All right, thank you.

MORTEN:

Thank you.

PRESENTER:

And our next question comes from the line of Giulia Miotto from Morgan Stanley, please go ahead, your line is open.

GIULIA:

Hi, thank you for your time. So I have a couple of questions. The first one, on the competitive landscape, how do you see peer-to-peer platforms, do you think that it presents a threat to your business model or not really? And my second question is on funding mix, are you planning to increase wholesale funding or more or less keep the funding mix stable? Thank you.

MORTEN:

Okay, it's Morten here, Julia, in terms of peer-to-peer, no, we don't see them as a threat.

CAMILLA:

Okay, I will continue with the funding question. We are continuously monitoring the most efficient way to fund us of course, and as of today we think we are in a good place and we will keep the mix that we have currently.

GIULIA:

Okay, thank you, and can I ask why you don't perceive them as a threat?

MORTEN:

Well I think it's a bit of a hype actually, and when you look at some of the American stories that is out there, I don't see what they bring to the market that isn't already there, except that they don't have a balance sheet, which I think is not maybe sustainable in the long run.

GIULIA:

Okay, thank you.

MORTEN:

Thank you.

PRESENTER:

Ladies and gentlemen, as a reminder, if you wish to ask a question, please press 01 on your telephone keypad. There are no further questions registered at this moment in time, I hand the call back to you Sir.

MORTEN:

Okay, I think we're done from our sides, and I hope you enjoyed the Q3 report, I think it's a very strong one. And it certainly gives me confidence about the next quarter and this is a momentum that we have now. So it's good to be focused on work again. So that's all from us here, thank you very much everyone for listening.

CAMILLA:

Thank you.

MORTEN:

Bye-bye.

PRESENTER:

This now concludes our call, thank you all for attending, you may now disconnect your lines.